

## 807 KAR 5:064. Telephone depreciation filing procedure.

RELATES TO: KRS Chapter 278

STATUTORY AUTHORITY: KRS 278.280(2)

NECESSITY, FUNCTION, AND CONFORMITY: KRS 278.280(2) provides that the commission shall prescribe rules for the performance of any service or the furnishing of any commodity by any utility. This administrative regulation establishes general rules which apply to telephone utilities.

Section 1. General. It is the purpose of this administrative regulation to provide the method for determining the appropriateness of telephone utility depreciation rates and methods. It is also the purpose of this administrative regulation to provide for frequent reviews of depreciation rates to avoid under- and overaccruals.

Section 2. Definitions. (1) "Commission" means the Kentucky Public Service Commission.

(2) "Accumulated provision for depreciation" or "depreciation reserve" means an account containing the net balance of the accumulated depreciation accruals less the retirements from the depreciable plant accounts, plus the gross salvage realized from the disposition of retired plant, less the cost of removal associated with the disposition of retired plant, when using net salvage, less adjustments/entries permitted by the Federal Communications Commission's Uniform System of Accounts.

(3) "Annual provision for depreciation accrual" means the annual amount of depreciation charged to expenses and/or clearing accounts.

(4) "Cost of removal" means the cost of demolishing, dismantling, removing, tearing down or abandoning of physical assets, including the cost of transportation and handling incidental thereto.

(5) "Depreciation," as applied to depreciable utility plant, means the loss in service value not restored by current maintenance, incurred in connection with the consumption or prospective retirement of utility plant in the course of service from causes which are known to be in current operation and against which the utility is not protected by insurance. Among the causes to be given consideration are wear and tear, decay, action of the elements, inadequacy, obsolescence, changes in the art, changes in demand and requirements of public authorities.

(6) "Future net salvage" means an estimate of the net salvage realized from the future retirement of property now in service.

(7) "Net salvage" means salvage of property retired less the cost of removal.

(8) "Original cost" means the actual money cost of property at the time it was first dedicated to the public use whether by the accounting utility or by predecessors.

(9) "Remaining life" means the future expected service in years of the survivors at a given age.

(10) "Remaining life technique" means the technique of calculating a depreciation rate based on the unrecovered plant balance less average future net salvage over the average remaining life. The formula for calculating a remaining life rate is:

$$\text{Remaining Life Rate} = \frac{100\% - \text{reserve}\%}{\frac{\text{average future net salvage}\%}{\text{average remaining life in years}}}$$

$$\text{Remaining Life Rate} = \frac{100\% - \text{reserve}\% - \text{average future net salvage}\%}{\text{average remaining life in years}}$$

(11) "Gross salvage" means the amount received for property retired, if sold, or if retained for re-use, the amount at which the materials recovered are chargeable to materials and supplies, or other

appropriate accounts.

(12) "Straight-line average service life method" means the method which seeks to recover the original cost of depreciable property, minus net salvage, over the average service life of the property.

(13) "Straight-line remaining life method" means the method which seeks to recover the undepreciated original cost of depreciable property, minus any future net salvage, over the remaining life of the property.

(14) "Service value" means the difference between original cost and net salvage value of utility plant.

(15) "Average service life" means the average expected life of all units of a group when new and is determined as the weighted dollar average of the lives of the units. It is equal to the area under the survivor curve divided by original placements.

(16) "Whole life technique" means the technique of calculating a depreciation rate based on the average service life and the average net salvage. Both life and salvage components are the estimated or calculated composite of realized experience and expected activity. The formula for calculating a whole life rate is:

$$\text{Whole life rate} = \frac{100\% - \text{average net salvage}\%}{\text{average service life in years}}$$

(17) "Vintage group procedure" means the procedure which treats the same type of property placed in service during the same year as a distinct group for depreciation purposes.

(18) "Equal life group procedure" means the procedure in which vintage groups are divided into subgroups for depreciation purposes, each of which is expected to live an equal life.

Section 3. Applicability. This administrative regulation shall apply to all telephone utilities subject to the jurisdiction of the commission, except for telephone utilities also subject to Federal Communications Commission jurisdiction.

Section 4. General Provisions. (1) All telephone utilities shall maintain, and have available for inspection by the commission upon request, adequate records related to the depreciation practices as defined herein, except for those utilities utilizing Section 8 of this administrative regulation.

(2) Each utility has the responsibility of proposing the depreciation rates and methods that will be used. This administrative regulation contemplates the use of straight-line, whole life rates and straight-line, remaining life rates. All rates and methods shall be proposed to be effective on the January 1st following the utility's application as specified in Section 5 of this administrative regulation.

(3) Certified rates and methods are binding on all future rate proceedings and will remain in effect until the next certification, except upon special request, to be determined by the commission.

(4) Depreciation certification studies shall be made periodically. All depreciable plant accounts shall have been reviewed no more frequently than every three (3) years.

Section 5. Filing Requirements: Depreciation Certification Studies. (1) Initially and not less than every three (3) years thereafter each telephone utility may file an application for depreciation certification and the data described in the following paragraphs on or before the July 1st prior to the January 1st effective date.

(2) Each application shall contain the following:

(a) A schedule showing for each class and subclass of plant (whether or not the depreciation rate is proposed to be changed) an appropriate designation therefor, the depreciation rate currently in effect, the proposed rate, and the service-life and net-salvage estimates underlying both the current

and proposed depreciation rates. If the utility proposes to use the remaining life technique, the schedule shall also contain remaining service-life and future net-salvage estimates, reserve percentage, and remaining life rates derived therefrom.

(b) An additional schedule showing for each class and subclass, as well as the totals for all depreciable plant:

1. The book cost of plant at the most recent date available;
2. The estimated amount of depreciation accruals determined by applying the currently effective rate to the amount of such book cost;
3. The estimated amount of depreciation accruals determined by applying the rate proposed to be used to the amount of such book cost; and

4. The difference between the amounts determined in subparagraphs 2 and 3 of this paragraph;

(c) A statement giving the reasons for the proposed change in each rate;

(d) A statement describing the method or methods employed in the development of the service life and salvage estimates underlying each proposed change in a depreciation rate; and

(e) The date as of which the revised rates are proposed to be made effective in the accounts.

(f) When the change in the depreciation rate proposed for any class or subclass of plant (other than one occasioned solely by a shift in the relative investment in the several subclasses of the class of plant) amounts to twenty (20) percent or more of the rate currently applied thereto, or when the proposed change will produce an increase or decrease of one (1) percent or more of the aggregate depreciation charges for all depreciable plant (based on the amounts determined in compliance with paragraph (b) of this subsection), the data required by paragraphs (a), (b), (c), (d), and (e) of this subsection shall be supplemented by copies of the underlying studies, including calculations and charts, developed by the utility to support service-life and net-salvage estimates (remaining service-life and future net-salvage estimates if applicable); provided, however, that if compliance with this requirement involves submission of a large volume of data of a repetitive nature, only a fully illustrative portion thereof need be filed.

(g) Each report shall be filed in duplicate and the original shall be signed by the responsible official to whom correspondence related thereto shall be addressed.

(h) In no event shall a utility for which the commission has prescribed depreciation rates make any changes in such rates unless the changes are prescribed by the commission.

(i) Any changes in depreciation rates that are made under the provisions of Section 4 of this administrative regulation shall not be construed as having been approved by the commission unless the utility has been specifically so informed.

Section 6. Prescribed Methods: Depreciation Certification Studies. (1) The commission prescribes the straight-line method and the whole life technique or remaining life technique utilizing the vintage group or equal life group procedures for calculating depreciation accruals.

(2) No specific methods are prescribed by the commission for estimating service lives and salvage values, including remaining life and future net salvage values.

(3) Any exceptions to these methods will require specific justification and approval by the commission.

Section 7. Filing Procedures. (1) Telephone utilities may apply no more frequently than every three (3) years to the commission for changes in depreciation rates and methods in accordance with this administrative regulation, except for those utilities which may use the average schedule as defined in Section 8 of this administrative regulation. Utilities may propose interim studies of particular accounts prior to the minimum three (3) year period allowed by this administrative regulation; however, the commission shall have binding discretion as to whether the studies will be considered.

(2) The commission shall schedule conferences with the utilities to review the utilities' proposed

rates and methods. In the event that a disagreement concerning a proposed depreciation rate (or rates) and underlying studies cannot be agreed to by both the utility and the commission, the prior rate (or rates) shall remain in effect until the next certification or until the commission shall determine otherwise.

(3) After review by the commission as outlined in subsection (2) of this section, and prior to certification by the commission, a public notice will be issued by the utility allowing twenty (20) days for comments by any interested parties.

(4) In the event the commission has not issued a certification order by December 1 following the application, the commission may issue a letter to the utility authorizing interim booking effective on the following January 1, of the rates agreed upon until the commission issues its final order.

Section 8. Average Schedule. For those telephone utilities not having adequate records or staff to perform the studies specified in this administrative regulation, the commission will issue a proposed average schedule each year. Utilities may either elect to accept the proposed schedule, to be effective January 1 following its issuance, or may reject it, in which case their existing depreciation rates will remain in effect until the next average schedule is proposed. The average schedule for a particular utility will remain in effect for three (3) years upon acceptance by that utility. In the event that a utility elects to utilize a proposed average schedule but because circumstances unique to that utility require a deviation for a particular account (or accounts), the utility may file studies as outlined in Section 5 of this administrative regulation for that account (or accounts).

Section 9. Deviations from Rules. In special cases, for good cause shown, the commission may permit deviation from these rules. (9 Ky.R. 1076; Am. 1198; eff. 4-6-83.)